

**To:** Health Insurance Advisory Council

**From:** Patrick M. Tighe, Principal Policy Associate

**Subject:** Small and Large Group Approved Rate Factors Monitoring Data (Quarter One to Quarter Three 2012) Update

**Date:** December 18, 2012

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This memo provides the Health Insurance Advisory Council (HIAC) with updates concerning initial data submitted for the first three quarters of 2012 for the State of Rhode Island Office of the Health Insurance Commissioner's (OHIC) small and large group approved rate factors quarterly monitoring and assessment process. As a reminder, the purpose of this process is to create additional accountability and transparency around commercial health insurance issuer compliance with OHIC's approved expected overall average trend for each market.

Of particular concern to OHIC and HIAC in the data submitted (included at the end of this memo) were the following issues:

1. The lack of a normal distribution centered on the actual overall average premium trends among the renewal rates presented for each issuer in each market
2. The discrepancy between United Healthcare's (United) 2012 small group approved expected overall average premium trend of 10.60% and their annual to date actual overall average premium trend of 16.22%
3. The discrepancy between Tufts Health Plan's (Tufts) 2012 small and large group approved expected overall average premium trend of 4.80% (for both markets) and their annual to date actual overall average premium trend of 9.73% and 8.35% (for small and large group, respectively)

No questions were raised about Blue Cross Blue Shield of Rhode Island's (BCBSRI) data.

Regarding the first issue of the lack of a normal distribution, the actual overall average premium trends reported represent the average premium adjustment, weighted by group size, for each issuer's small and large group blocks of business. However, the frequency distributions shown represent the number of groups whose renewal rate quotes fell within a given range, which are not weighted. This is to ensure that the frequency distributions depict an accurate distribution of renewals. Given the differences in weighting between these two quantities, a normal distribution centered on the actual overall average premium trend would not be expected.

Regarding United's small group discrepancy, United has reported that of the 5.62% that exceeds the approved expected overall average premium trend, approximately 3.60% is due to changes in the age and gender of the membership and 2.02% is due to changes in family composition of the membership. When OHIC established approved expected overall premium trends for 2012, it

indicated that issuers would not be at risk for demographic shifts such as the one described above. However, when OHIC established its approved expected overall average premium trends for 2013, it made it clear that issuers are at now risk for demographic shifts such as the one described above.

Additionally, as result of this monitoring, OHIC and United are currently involved in discussions about ensuring that United's methodology for taking into account changes in family composition is consistent with Rhode Island statute and regulation. OHIC will update HIAC as these conversations progress.

Regarding Tufts' small and large group discrepancy, Tufts has reported that the discrepancy between their 2012 approved expected overall average premium trend and their annual to date actual overall average premium trend in both markets is due to a small number of groups renewing in each quarter, resulting in volatility.

Additionally, in the small group market, Tufts has reported that many of their small groups are only one or two lives, creating a situation where such groups will virtually only get older and will do so inexorably at one year of age per year. With larger groups, all the insured members get a year older but there is ordinarily some movement with older workers leaving a group and younger workers coming on—somewhat offsetting the insured members who age.

Tufts also noted that it continues to make an effort to gain additional market share. If Tufts is successful in doing so, Tufts expected that the issue of volatility in both markets should diminish.

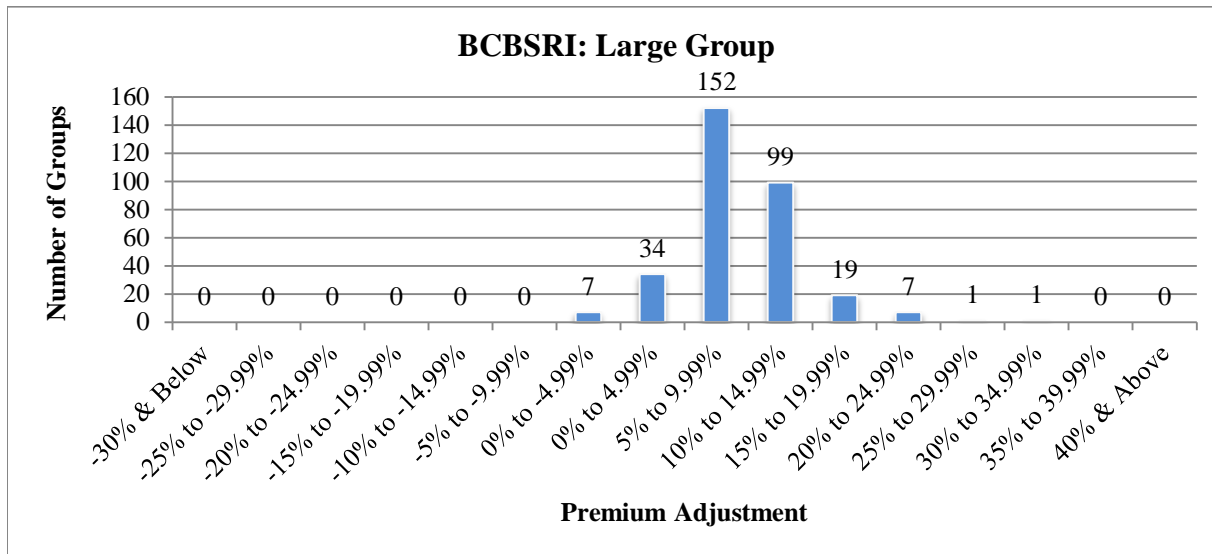
Finally, as noted previously, OHIC will continue to work with issuers to refine the monitoring and assessment process going forward. HIAC will be updated on a regular basis as this work proceeds.

As a reference, please find below the data submitted by BCBSRI, Tufts, and United for each market that was included in OHIC's November 20, 2012 memo to HIAC. Please note that the figures listed below represent the actual overall average premium trends for groups with renewal rates effective for the quarters shown and expressed in terms of current benefits.

### Blue Cross Blue Shield of Rhode Island

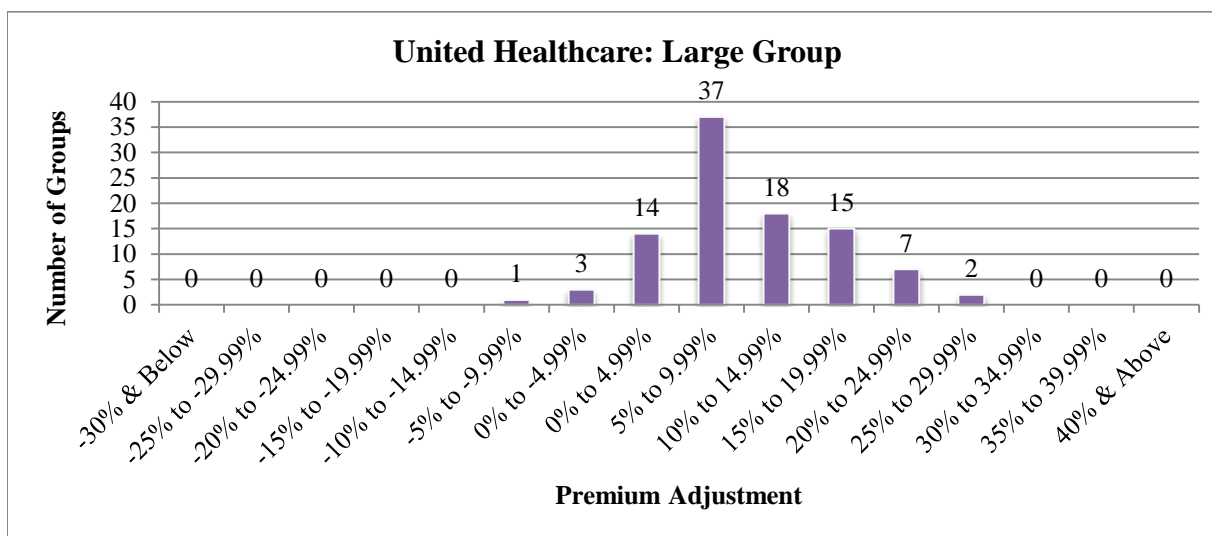
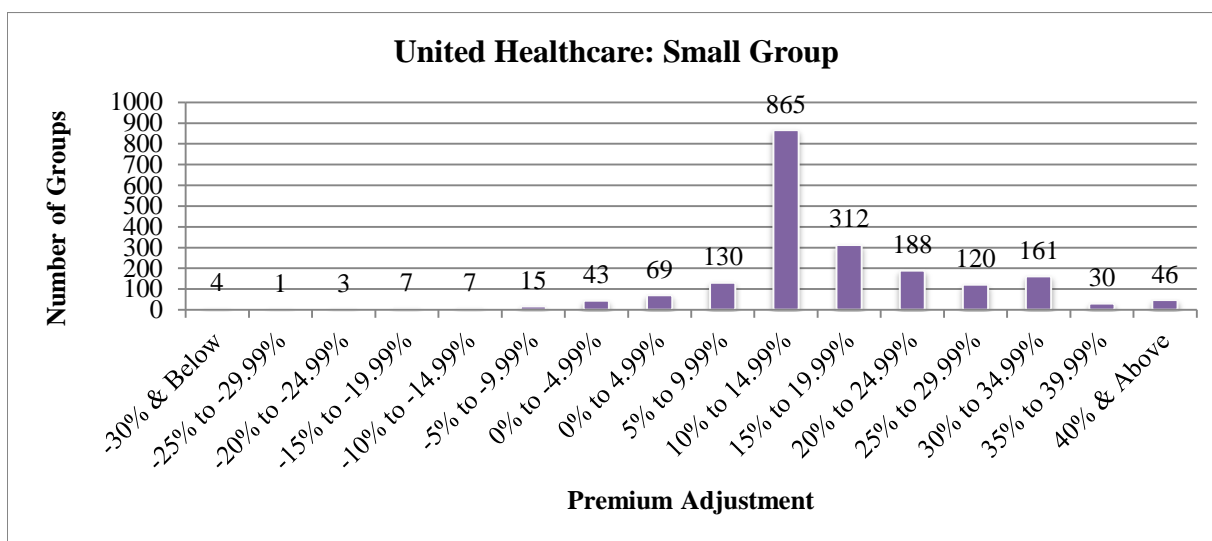
	First Quarter	Second Quarter	Third Quarter	Annual to Date	Approved Increase for 2012
Small Group	7.50%	7.80%	7.40%	N/A*	8.0%
Large Group	9.85%	10.43%	8.25%	9.67%	9.6%

\*Information was not provided.



**United Healthcare**

	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Annual to Date</b>	<b>Approved Increase for 2012</b>
Small Group	16.33%	15.92%	16.32%	16.22%	10.60%
Large Group	8.79%	10.92%	7.10%	8.89%	10.00%



**Tufts Health Plan**

	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Annual to Date</b>	<b>Approved Increase for 2012</b>
Small Group	8.92%	10.14%	9.96%	9.73%	4.80%
Large Group	9.01%	6.93%	7.23%	8.35%	4.80%

